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**State Auditor Vaudt Reviews  
Fiscal Year 2007 General Fund Budget**

(Des Moines, Iowa) – Late last month, Governor Vilsack signed the final appropriation bills for Fiscal Year 2007. Now that the dust has settled from the 2006 legislative session, State Auditor Dave Vaudt has completed his review of the final approved budget. Following are some of his findings about Iowa's planned spending for the fiscal year that began July 1, 2006.

**The Numbers**

General Fund revenues for Fiscal Year 2007 are projected to grow 2.5%--from the estimated \$5.279 billion in Fiscal Year 2006 to \$5.411 billion in Fiscal Year 2007, an increase of \$132 million. True total General Fund expenditures, on the other hand, are budgeted to grow by 5.1%--from \$5.426 billion in Fiscal Year 2006 to \$5.705 billion in Fiscal Year 2007, an increase of \$279 million. "Again in Fiscal Year 2007, General Fund costs are being shifted to other limited-time funds such as the Senior Living Trust Fund and Tobacco related funds," noted Auditor Vaudt. "The good news is this 5.1% increase in spending is less than the 7.1% that occurred in Fiscal Year 2006, and the shifted costs of \$367 million are less than the \$399 million shifted in Fiscal Year 2006," added Auditor Vaudt.

**Short-term Focus**

"Certain aspects of the Fiscal Year 2007 budget are very short-term focused once again," Auditor Vaudt emphasized. Three budget elements demonstrating that short-term focus are: (1) using \$160 million of the Fiscal Year 2006 estimated surplus to fund Fiscal Year 2007 property tax credits; (2) capturing \$46 million of additional revenue by notwithstanding the law and using the Revenue Estimating Conference (REC) March 2006 estimate of Fiscal Year 2007 revenues instead of the REC December 2005 estimate in calculating revenues available, and (3) underfunding best estimates of Fiscal Year 2007 Medicaid costs by \$25 million to \$52 million. "These elements clearly reflect the short-term focus of balancing the budget by finding enough resources to cover today's spending while ignoring long-term consequences," stressed Auditor Vaudt.

## Looking Ahead

Incorporated in the Fiscal Year 2007 budget are multi-year spending increases and tax revenue phase-outs—both of which will add to the strain of balancing the budget in Fiscal Year 2008 and beyond. “While both these budget elements have merit, a longer-range plan needs to be developed to address how we incorporate these elements into a fiscally sound budget in the future,” Auditor Vaudt commented. “Just to fund the new multi-year spending increases (such as student achievement/teacher quality pay), new tax revenue phase-outs (social security and pension), 4% allowable growth for K-12 education, and previous years’ built-in revenue reductions plus shift costs back into the General Fund will require an 11% growth in revenues for Fiscal Year 2008,” Auditor Vaudt pointed out. “That’s before we even talk about all the other increased costs, such as Medicaid, health insurance, fuel, and utilities,” warned Auditor Vaudt.

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**Auditor of State  
David A. Vaudt**

**Comments on  
Fiscal Year 2007  
General Fund Budget**

**July 19, 2006**

**Press Briefing**

# State of Iowa FY07 General Fund Budget

Remarks today will focus on three areas:

- The numbers – comparison of the final budget to the House Republicans' and Governor's proposals
- Short-term focus continues:
  - Utilizes March 2006 REC revenue projections
  - Places reliance on previous year projected surplus
  - Under-funds estimated costs
- Looking ahead:
  - Multi-year accelerating spending increases and revenue reductions
  - Revenue growth needed for FY08

**State of Iowa  
FY07 General Fund Budget  
Revenues  
(\$ in Millions)**

	<u>Proposals</u>		<u>Final Budget</u>
	<u>House Republicans'</u>	<u>Governor's</u>	
REC – December 2005	\$5,314.7	5,314.7	5,314.7
Revenue adjustments:			
Tobacco tax increase	-	129.9	-
IowaCare Account	-	-	59.6
Social Security & pension tax phase-out	(18.1)	-	(11.9)
Other, net	5.3	47.0	1.9
REC – adjustment March 2006	<u>-</u>	<u>-</u>	<u>46.2</u>
	<u>\$5,301.9</u>	<u>5,491.6</u>	<u>5,410.5</u>
Revenue growth over FY06 estimate of \$5,278.9			<u>2.5%</u>

# State of Iowa FY07 General Fund Budget Expenditure Adjustments (\$ in Millions)

	<u>Proposals</u>		
	<u>House Republicans'</u>	<u>Governor's</u>	<u>Final Budget</u>
As presented	<u>\$5,247.9</u>	<u>5,306.3</u>	<u>5,296.5</u>
■ <u>Repayment to SLTF (A)</u>	(25.0)	-	-
■ <u>FY07 new ongoing revenues -</u> Tobacco tax increase shifted to and spent from other funds	-	129.9	-
■ <u>Non-General Fund resources -</u> Expenditures shifted to other funds	257.6	227.6	366.8
■ <u>Under-funded costs - likely</u> supplemental appropriation	<u>41.0</u>	<u>60.0</u>	<u>41.5</u>
Total adjustments	<u>273.6</u> <u>5.2%</u>	<u>417.5</u> <u>7.9%</u>	<u>408.3</u> <u>7.7%</u>
"True total expenditures"	<u>\$ 5,521.5</u>	<u>5,723.8</u>	<u>5,704.8</u>
(A) Senior Living Trust Fund			

**State of Iowa  
FY07 General Fund Budget  
Shifted Expenditures  
(\$ in Millions)**

	<u>Proposals</u>		<u>Final Budget</u>
	<u>House Republicans'</u>	<u>Governor's</u>	
<u>Non-General Fund resources:</u>			
Other expenditures shifted to:			
FY06 Surplus	\$ 102.7	119.8	159.9
Cash Reserve Fund	57.0	-	-
IowaCare Account	-	-	53.2
Tobacco Related Funds	35.3	32.8	55.9
Senior Living Trust Fund	40.0	40.8	74.0
Rebuild Iowa Infrastructure Fund	15.1	22.1	16.3
Environment First Fund	7.5	7.5	7.5
Vertical Infrastructure Fund	<u>-</u>	<u>4.6</u>	<u>-</u>
	<u>\$257.6</u>	<u>227.6</u>	<u>366.8</u>

# State of Iowa

## FY07 General Fund Budget

### Additional Expenditures

(\$ in Millions)

	<u>Proposals</u>		
	<u>House Republicans'</u>	<u>Governor's</u>	<u>Final Budget</u>
<u>Under-funded costs:</u>			
Likely supplemental:			
Medicaid	\$ 38.0	57.0	38.5(A)
State Appeal Board	<u>3.0</u>	<u>3.0</u>	<u>3.0</u>
	<u>\$ 41.0</u>	<u>60.0</u>	<u>41.5</u>

(A) Estimated shortfall \$25 million to \$52 million as of July 12, 2006



State of Iowa  
FY07 General Fund Budget  
Growth of "True Total Expenditures"  
(\$ in Millions)

	<u>Proposals</u>		
	<u>House Republicans'</u>	<u>Governor's</u>	<u>Final Budget</u>
<u>FY06:</u>			
Enacted budget	\$ 4,939.7	4,939.7	4,939.7
Shifted expenditures	398.9	398.9	398.9
Supplemental	<u>46.4</u>	<u>57.5</u>	<u>87.4</u>
Estimated "true total expenditures"	<u>\$5,385.0</u>	<u>5,396.1</u>	<u>5,426.0</u>
<u>FY07:</u>			
Estimated "true total expenditures"	<u>\$5,521.5</u>	<u>5,723.8</u>	<u>5,704.8</u>
<u>FY07 increase over FY06:</u>			
Amount	<u>\$ 136.5</u>	<u>327.7</u>	<u>278.8</u>
Percentage	<u>2.5%</u>	<u>6.1%</u>	<u>5.1%</u>

State of Iowa  
FY07 General Fund Budget  
Spending Gap  
(\$ in Millions)

	<u>Proposals</u>		<u>Final Budget</u>
	<u>House Republicans'</u>	<u>Governor's</u>	
<u>As adjusted for all resources:</u>			
Total revenues	\$5,301.9	5,491.6	5,410.5
"True total expenditures"	<u>5,521.5</u>	<u>5,723.8</u>	<u>5,704.8</u>
Gap - spending in excess of revenues	<u>\$ (219.6)</u>	<u>(232.2)</u>	<u>(294.3)</u>
Spending gap as % of total revenues	<u>(4.1%)</u>	<u>(4.2%)</u>	<u>(5.4%)(A)</u>

(A) 6.3% before REC March 2006 revenue adjustment of \$46.2 Million

# State of Iowa

## FY07 General Fund Budget

### Short-term Focus

- Notwithstands law to allow \$46.2 million of additional revenue by utilizing March 2006 REC estimate of FY07 revenue
- Reliance on FY06 projected surplus:
  - Utilizes \$159.9 million of projected FY06 surplus to fund property tax credits for FY07 budget
  - Continues dependence on balancing next year's budget with current year's projected unspent revenues
- Under-funds estimated Medicaid costs:
  - Under-funded FY07 estimated costs by \$25 million to \$52 million:
    - ❖ DHS, DOM, and LSA cost estimate \$784.2 million to \$811.2 million
    - ❖ Budget proposal provides \$759.2 million

**State of Iowa**  
**FY07 General Fund Budget**  
**Looking Ahead**  
(\$ in Millions)

■ Multi-year Spending Increases:

	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>
Student achievement/ teacher quality	\$35	70	105
High quality preschool	15	20	20
School Foundation Formula amendment	<u>6</u>	<u>12</u>	<u>18</u>
	<u>\$56</u>	<u>102</u>	<u>143</u>
■ <u>Social Security &amp; pension</u> <u>tax revenue phase-out(A)</u>	<u>\$12</u>	<u>34</u>	<u>44</u>

(A) Increasing amounts each year to \$118 million in FY15

State of Iowa  
FY07 General Fund Budget  
Looking Ahead, Continued  
(\$ in Millions)

	<u>Final Budget</u>
<u>Revenue growth needed for FY08:</u>	
Social security & pension tax revenue phase-out	\$ 22
Other LSA estimated revenue decreases built-in(A)	50
Student achievement/teacher quality, preschool, and foundation formula spending increases	46
Allowable growth of 4% for K-12 education	103
Full year vs. 3 months operations for Corrections Oakdale expansion	<u>15</u>
	236
FY07 shifted expenditures	<u>367</u>
Revenue growth needed	<u><u>\$603</u></u>
Revenue growth needed - as a percentage of estimated revenues	<u><u>6.8%-11.1%</u></u>

(FY07 estimated revenue of \$5,411)

(A) Insurance premium tax reduction, utility tax phase-out, Iowa Values Fund credits, etc.